

## Message Text

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64

ACTION EB-11

INFO OCT-01 ARA-16 EUR-25 NEA-10 ADP-00 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01

PRS-01 SS-15 USIA-15 COME-00 SCEM-02 INT-08 OMB-01

TRSE-00 RSR-01 /143 W

----- 087655

R 142215Z AUG 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8318

INFO AMEMBASSY BERN

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY LIMA

AMEMBASSY TEL AVIV

AMCONSUL GUAYAQUIL

AMCONSUL ZURICH

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E.O. 11652: N/A

TAGS: ENRG, EC

SUBJECT: ERINAM SIGNS CONTRACT FOR PURCHASE OF ROYALTY OIL

REF: A. QUITO 3736; B. QUITO 4009; C. BERN 3264

SUMMARY: SWISS FIRM ERINAM A.G. AND GOE SIGNED CONTRACT AUGUST 9 TO SELL GOE'S ROYALTY SHARE OF CRUDE TO ERINAM. MYSTERY CONTINUES TO SURROUND DESTINATION. RUMORS PERSIST THAT ROYALTY CRUDE IS BOUND FOR CUBA OR ISRAEL, BUT PRESS REPORT HAS ALSO SURFACED FROM AN UNNAMED GOE SOURCE THAT DESTINATION IS U.S. END SUMMARY.

1. PEDRO ARBENZ (NATIONALITY UNKNOWN) SIGNED CONTRACT AUGUST 9 ON BEHALF OF ERINAM FOR PURCHASE OF ROYALTY CRUDE. ACCORDING LOCAL PRESS, ERINAM PRESENTED A BANK LIMITED OFFICIAL USE

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GUARANTEE OF \$3.6 MILLION, REPRESENTING AN ESTIMATED

5 PERCENT OF THE VALUE OF THE CONTRACT DURING THE FIRST YEAR OF TWO.

2. PERSISTENT RUMORS THAT ERINAM IS ACTING AS AN AGENT FOR EITHER CUBAN AND SOVIET OR ISRAELI INTERESTS HAVE BEEN REPORTED IN THE QUITO PRESS AND IN PETROLEUM INTELLIGENCE WEEKLY (JULY 30 ISSUE). BRAZILIAN AMBASSADOR SAID AUGUST 13 THAT, ACCORDING TO HIS SOURCES, DESTINATION IS CUBA AND THIS HAS PROVOKED HEATED DEBATES IN GOE, WITH ONE FACTION IN FAVOR OF NULLIFYING ERINAM CONTRACT AND PERHAPS DISQUALIFYING ALL BIDDERS WHOSE PRINCIPAL BUSINESS IS TRADE RATHER THAN PETROLEUM. EMBASSY CHECKS WITH OTHER SOURCES, HOWEVER, FAIL TO SUBSTANTIATE THIS PIECE OF INFORMATION.

3. ARBENZ ADDRESSED HIMSELF TO THE RUMORS IN AN AUGUST 8 PRESS CONFERENCE. AS QUOTED BY QUITO DAILY EL COMERCIO, HE SAID THAT, ALTHOUGH THE CONTRACT DOES NOT RESTRICT THE DESTINATION, AND APART FROM THE FACT THAT RESALE HAS NOT BEEN CONTRACTED, "THERE EXISTS AN EMBARGO SUCH THAT THERE ARE NO SHIPS DISPOSED TO TRAVEL FROM LATIN AMERICA TO CUBA", AND IT WOULD BE "UNECONOMIC" TO CARRY PETROLEUM FROM THE PACIFIC TO "RUSSIA OR OTHER COUNTRIES OF THE MEDITERRANEAN." ON THE QUESTION OF REPRESENTING FOREIGN INTERESTS, ARBENZ DENIED THAT ANY "COMMITMENT" COULD EXIST SINCE "UP TO THE MOMENT WE HAVE NOT FIRMLY CONTRACTED FOR THE ROYALTY CRUDE," BUT HE DID NOT PRECLUDE SOME UNMENTIONED "FUTURE COLLABORATION".

4. AN ARTICLE APPARENTLY DESIGNED BY ITS ORIGINATORS TO LAY THE MATTER TO REST APPEARED IN THE AUGUST 14 PRESS. CITING AN UNNAMED SOURCE "CLOSE TO THE ECUADOREAN PETROLEUM FLEET (FLOPEC)," THE ARTICLE ASSERTED THAT THE ROYALTY CRUDE WAS DESTINED FOR THE EAST AND WEST COASTS OF THE U.S. ERINAM WOULD BARTER THE ECUADOREAN CRUDE FOR MIDDLE EAST CRUDE TO BE USED IN TWO SWISS REFINERIES.

5. OILMEN CONSULTED IN QUITO HAVE OFFERED THE OPINION THAT THE PURCHASE OF ECUADOREAN CRUDE FOR BARTER PURPOSES IS A WORTHWHILE GAMBLE AT \$5 PER BARREL OR SOMEWHAT MORE. A LIMITED OFFICIAL USE

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RISKY ELEMENT FOR ERINAM IS THAT THE PURCHASE PRICE IS PEGGED TO THE PETROLEUM REFERENCE PRICE. MOST OBSERVERS HERE BELIEVE THAT THE GOE WILL RAISE THE REFERENCE PRICE AGAIN BEFORE VERY LONG.  
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